

**ASSOCIATION  
OF AMERICAN  
RAILROADS**

**Craig F. Rockey**  
Vice President - Policy & Economics

March 5, 2007

The Honorable Vernon A. Williams  
Secretary  
Surface Transportation Board  
395 E Street, SW.  
Washington, DC 20423-0001

Dear Mr. Williams:

This submission is the AAR forecast of the second quarter 2007 All-Inclusive Index and Rail Cost Adjustment Factor, filed in Ex Parte No. 290 (Sub-No. 5) (2007-2) *Quarterly Rail Adjustment Factor*. The versions of RCAF-related indices covered in this filing are: the All-Inclusive Index (initiated in the second quarter 1985), the Unadjusted RCAF (produced since October 1982), the Adjusted RCAF (first published in the second quarter of 1989), and the RCAF-5 (created by the STB in its Ex Parte No. 290 (Sub-No. 7) decision served October 3, 1996). The table below summarizes the second quarter 2007 results on the fourth quarter 2002 base, and shows the percentage changes from the previous quarter.

	<u>2007Q1</u>	<u>2007Q2</u>	<u>% Change</u>
All-Inclusive Index	119.7	119.7	0.0
Preliminary RCAF	1.197	1.197	0.0
Forecast Error Adjustment	0.011	-0.050	
RCAF (Unadjusted)	1.208	1.147	-5.0
Productivity Adjustment Factor	2.1259	2.1348	
RCAF (Adjusted)	0.568	0.537	-5.5
PAF-5	2.2351	2.2456	
RCAF-5	0.540	0.511	-5.4

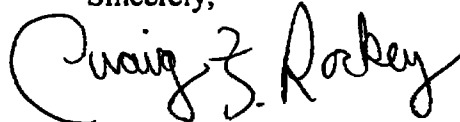
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March 5, 2007

In its October 3, 1996 decision in Ex Parte No. 290 (Sub-No. 7), *Productivity Adjustment - Implementation*, the STB noted its intent to publish, in addition to the RCAF (Unadjusted) and RCAF (Adjusted), an RCAF-5 (i.e., a calculation of the productivity adjusted RCAF values as if the agency had always used a 5-year rolling average to calculate the productivity adjustment). In response to a request by STB staff, the AAR is including a calculation of the RCAF-5 in its quarterly RCAF filing. The AAR and its members, however, do not believe the publication of a third RCAF index is required or permitted by the applicable statute (49 U.S.C. § 10708) and do not endorse its publication.

Two copies of the quarterly non-proprietary workpapers underlying this submission are filed herewith, in accordance with the ICC's order in Ex Parte No. 290 (Sub-No. 2), *Railroad Cost Recovery Procedures*, served February 8, 1990. A third copy of the working papers has been delivered to Mac Frampton in the STB office handling this proceeding. All workpapers are available for STB inspection. Questions should be directed to me or Clyde Crimmel (202 639-2309) of this office.

Sincerely,

A handwritten signature in black ink, reading "Craig F. Rockey". The signature is written in a cursive, flowing style with a large initial "C".

Craig F. Rockey

Attachments

**Second Quarter 2007  
All-Inclusive Index**

**Ex Parte No. 290 (Sub-No. 5) (2007-2)**

**Quarterly Rail Cost Adjustment Factor  
Surface Transportation Board**

**Policy and Economics Department  
Association of American Railroads**

**March 5, 2007**

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## **Introduction**

On January 2, 1985, the Interstate Commerce Commission (ICC) [now the Surface Transportation Board (STB)] adopted the All-Inclusive Index of Railroad Costs as the basis for the Rail Cost Adjustment Factor (RCAF). The quarterly projection of railroad costs, as documented herein, employs the All-Inclusive Index as required by the regulations. Also presented in this submission is the RCAF, both Adjusted and Unadjusted, as required by the ICC in its decision in Ex Parte No. 290 (Sub-No. 4), *Rail Cost Recovery Procedures - Productivity Adjustment*, served March 24, 1989. In addition, the AAR has included (but does not endorse) the RCAF-5, which was instituted by an STB decision served October 3, 1996 in Ex Parte No. 290 (Sub-No. 7), *Productivity Adjustment - Implementation*. This quarter's projection of railroad costs is for the second quarter 2007.

## Index Weights

In the Ex Parte No. 290 (Sub-No. 2) final rules, issued in April 1981, the Interstate Commerce Commission mandated that the weights of each major cost component be updated annually. These "external" weights are calculated using data from Schedules 410 and 210 of the R-1 annual report filed with the Surface Transportation Board by the Class I railroads. The weights are typically updated with the fourth quarter projection.

The previous (2004) weights were used for the fourth quarter of 2005 through the third quarter of 2006. Beginning with the fourth quarter of 2006, the 2005 weights are used. As those familiar with the U.S. economy in 2005 would expect; Fuel, Materials & Supplies, and Interest all increased their weight – especially Fuel. Depreciation also increased in weight. Fuel's expense increase was larger than all others combined, and on a percentage increase basis, Fuel expense grew by nearly 43 percent. Labor, despite a 5.6 percent increase in the amount of expenses, decreased as a percentage of total expenses. The 2005 (current) and 2004 (previous) weights are shown below.

RCAF Weights		
	Previous 2004	Current 2005
Labor	36.0 %	35.3 %
Fuel	12.1	16.0
Materials & Supplies	4.4	4.6
Equipment Rents	8.9	8.2
Depreciation	10.6	11.1
Interest	3.0	3.1
Other	25.0	21.7

Reweightings of the index is accomplished by calculating both the current quarter (normally the fourth) and prior (normally the third) quarter indexes with the new weights. The relative change between the two quarters is then multiplied times the prior quarter (usually the third) *linked* index. Use of this method ensures that the weight change, by itself, does not cause a change in the level of the All-Inclusive Index.

Internal weights in the labor and equipment rents components are updated at the same time as the external weights. When these weights are changed, they are also linked using the procedure described above in order to eliminate the effect of the change in weighting.

## All-Inclusive Index Second Quarter 2007

The components and values of the current and previous All-Inclusive Indexes are shown below. Details of the construction of each component of the index are contained in the Appendices.

	2005 Weights	Forecast		Percent Change
		Previous 2007Q1	Current 2007Q2	
1. Labor	35.3%	297.4	298.2	0.3 %
2. Fuel	16.0%	245.9	235.9	-4.1
3. M&S	4.6%	207.1	206.1	-0.5
4. Equipment Rents	8.2%	188.2	190.2	1.1
5. Depreciation	11.1%	191.6	200.9	4.9
6. Interest	3.1%	96.9	96.9	0.0
7. Other	21.7%	188.6	189.8	0.6
8. Weighted Average				
a. 1980 = 100		234.5	234.6	
b. 1980 = 100 (linked)		229.9	230.0 <sup>1</sup>	
c. 4Q02 = 100		119.7	119.7 <sup>2</sup>	0.0

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<sup>1</sup> To calculate the 1980 = 100 Linked Index:

$$\begin{aligned}
 \text{Index}_{80} &= (\text{Current Index} / \text{Previous Index}) * \text{the Previous Quarter Linked Index} \\
 &= \quad 234.6 \quad \text{divided by} \quad 234.5 \quad \text{times} \quad 229.9 \\
 &= \quad 230.0
 \end{aligned}$$

<sup>2</sup> To calculate the 4Q02 = 100 index:

$$\begin{aligned}
 \text{Index}_{4Q02} &= (\text{Current Linked Index} / 4Q02 \text{ Linking Factor}) * 100 \\
 &= \quad 230.0 \quad \text{divided by} \quad 192.1 \quad \text{times} \quad 100 \\
 &= \quad 119.7
 \end{aligned}$$

4Q97 based index = 132.8

4Q92 based index = 146.6

4Q87 based index = 174.0

## Forecast vs. Actual All-Inclusive Index Fourth Quarter 2006

As shown below, the fourth quarter actual index of 117.4 is 5.0 index points below the forecast value of 122.4. Therefore, the forecast error adjustment for second quarter 2007 is -5.0 index points.

	2005	Fourth Quarter 2006		Amt
	Weights	Forecast	Actual	Difference
1. Labor	35.3%	293.0	293.0	
2. Fuel	16.0%	287.0	225.1	
3. M&S	4.6%	204.3	204.3	
4. Equipment Rents <sup>1</sup>	8.2%	189.5	188.1	
5. Depreciation	11.1%	190.6	189.6	
6. Interest	3.1%	96.9	96.9	
7. Other	21.7%	190.9	188.2	
8. Weighted Average				
a. 1980 = 100		239.9	229.2	
b. 1980 = 100 (linked)		235.2	225.6 <sup>2</sup>	
c. 4Q02 = 100 <sup>3</sup>		122.4	117.4	-5.0

**Forecast error** —————→ **-5.0 Index points**

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<sup>1</sup>	2005	Fourth Quarter 2006	
	Weights	Forecast	Actual
Car-Hire	49.2%	176.5	176.0
Lease Rentals	50.8%	190.9	188.2
Weighted Average		183.8	182.2
Weighted Average (linked)		189.5	188.1

<sup>2</sup> Linked actual index = (actual index / previous actual index) x previous linked actual index.  

$$225.6 = 229.2 / 235.7 \times 232.0$$

**Note:** The standard linking procedure has been used to eliminate any changes to indexes that would be caused by updating weights. The Q3 unlinked weighted averages for the All-Inclusive Indexes (forecast and actual) and for Equipment Rents (forecast and actual) were recalculated using the new (2005) weights.

<sup>3</sup> The 4Q02 based indexes are 1980 based indexes divided by the 4Q02 linking factor (192.1/100).  
 4Q97 based indexes are the 1980 based indexes divided by the 4Q97 linking factor (173.2/100).  
 4Q92 based indexes are the 1980 based indexes divided by the 4Q92 linking factor (156.9/100).



## Productivity

On January 31, 2007, the Surface Transportation Board (STB) served a decision in Ex Parte 290 (Sub-No. 4) which added the year 2005 to the Productivity Adjustment Factor (PAF) and deleted the year 2000. This creates an average annual productivity change for 2001 through 2005 of 1.7 percent – a 0.2 percentage point decrease from the 2000 through 2004 average of 1.9 percent. The components of this average annual value are shown on the following table in ratio format – therefore, 1.017 is the same as an increase of 1.7 percent. Productivity changes are calculated by dividing the output index by the input index. The average annual rate is calculated by multiplying each of the five productivity changes together and taking the result to the one fifth power. The quarterly productivity adjustment factors (PAF) are calculated by increasing the previous quarter's PAF by quarterly versions of the annual rate which are the fourth root of the average annual growth rate. The difference between the PAF and the PAF-5 is the timing of the 5-year productivity trend.

<b>Comparison of Output, Input, &amp; Productivity</b>			
<b>2001 - 2005</b>			
Year	Output Index (1)	Input Index (2)	Productivity <sup>1</sup> Changes (3)
2001	0.971	0.955	1.016
2002	1.012	1.006	1.006
2003	1.039	1.020	1.019
2004	1.033	1.057	0.977
2005	1.021	0.956	1.068
Average			1.017
Previous Average (2000-2004)			1.019

<sup>1</sup> The values shown in Column 3 are based on full float calculations and may not exactly match numbers calculated using the rounded numbers displayed in Columns 1 and 2

<b>Calculation of PAF and PAF-5</b>			
For 2001-2005, use fourth root of avg. productivity change = 1.0042			
For 2000-2004, use fourth root of avg. productivity change = 1.0047			
Quarter	Year	PAF	PAF-5
Q1	2007	2.1259	2.2351
Q2	2007	2.1348	2.2456
Q3	2007	2.1438	2.2562
Q4	2007	2.1528	2.2668
Q1	2008	2.1618	2.2763

2000-2004

2001-2005

## Rail Cost Adjustment Factor

### Second Quarter 2007

Four RCAF values are presented in this filing. Two are not modified for productivity (Preliminary RCAF and RCAF Unadjusted), and two incorporate a productivity calculation (RCAF Adjusted and RCAF-5). The All-Inclusive Index and all four RCAF values, plus the percent change for each, are shown below.

	Previous 2007Q1	Current 2007Q2	Percent Change
All-Inclusive Index <sup>1</sup>	119.7	119.7	–
Preliminary RCAF <sup>2</sup>	1.197	1.197	–
Forecast Error Adjustment <sup>3</sup>	<u>0.011</u>	<u>-0.050</u>	
RCAF (Unadjusted) <sup>4</sup>	1.208	1.147	-5.0
Productivity Adjustment Factor <sup>5</sup>	2.1259	2.1348	
RCAF (Adjusted) <sup>6</sup>	0.568	0.537	-5.5
PAF-5 <sup>7</sup>	2.2351	2.2456	
RCAF-5 <sup>8</sup>	0.540	0.511	-5.4

<sup>1</sup> See All-Inclusive Index on page 3.

<sup>2</sup> All-Inclusive Index divided by the All-Inclusive Index in the base period (100.0).

<sup>3</sup> The current figure is from Forecast vs. Actual All-Inclusive Index in this filing (page 4). The previous quarter figure is shown in a similar section of the previous quarter's filing.

<sup>4</sup> Preliminary RCAF plus the forecast error adjustment.

<sup>5</sup> See Productivity on page 5.

<sup>6</sup> RCAF (Unadjusted) divided by the Productivity Adjustment Factor (PAF).

<sup>7</sup> See Productivity on page 5.

<sup>8</sup> RCAF (Unadjusted) divided by the PAF-5.

## **Appendixes**

## **Labor**

### **Second Quarter 2007**

The second quarter 2007 Labor Index increased 0.3 percent from the previous quarter. New independent contracts and contributions to an employee stock plan caused the increase.

#### **Wage Index**

The Wage Index portion of the Labor Index is unchanged from the prior quarter, although wages actually increased 0.06 percent. Some new independent contracts were added that featured wage increases, back pay, and bonuses.

**Wage Increases:** No wage increases for national or independent agreements were scheduled for the second quarter. Six new independent agreements were added to the index, and all six agreements affected railroads (BLE, DMIR, GTW, and IC) that are part of CN's U.S. operations. Most agreements featured retroactive general wage increases resulting in back pay amounts, and some also included bonuses and/or new employee health & welfare cost sharing rates. [Appendix H contains common railroad and union abbreviations.]

**Lump Sums:** The lump sum rate increased by one half of one cent. Amounts were added as a result of new CN contract bonuses for DMIR's IBBM and IC's TCU-Carmen employees. Amounts from last year for various CN railroads were fully amortized and removed from the rate. The other change to the lump sum rate involved the Norfolk Southern Thoroughbred Performance Bonus. Last year's Thoroughbred Bonus, which was paid to NS BLET and ATDA employees, has been fully amortized and removed from the lump sum rate. This year's Thoroughbred Bonus totaled to a higher dollar payout, and the difference between the two bonuses accounts for the change in the rate.

**Back Pay:** The back pay rate increased by six tenths of a cent because of new back pay amounts related to the six new CN contracts. The complete amortization and removal of several amounts from last year reduced some of the impact of the new agreements.

**Other:** Other wages contains the amortization of a profit sharing payment that the BNSF Railway makes each year to its dispatchers, yardmasters, and engineers. The current amortization, which will be completed after the second quarter 2007, is for a profit sharing payment made in early 2006 for performance in 2005. The rate is unchanged.

#### **Supplements Index**

The Supplements Index is forecast to increase 0.6 percent from the first quarter filing. Most of the change is caused by one railroad's annual employee stock distribution that is recorded as a fringe benefit.

## **Labor**

### **Second Quarter 2007**

**Health & Welfare:** The small decrease (one tenth of one cent) in the Health & Welfare hourly rate was caused by the addition of some new independent labor agreements with higher employee cost sharing rates.

**Railroad Retirement:** The Railroad Retirement rate had a very slight increase because of the slight increase in wages.

**Unemployment Insurance:** The Unemployment Insurance rate was unchanged for the quarter.

**Other:** The "Other" category is a reflection of all other fringe benefits, and currently contains employer contributions to employee 401(k) accounts, plus employer contributions to employee stock plans that are recorded as fringe benefits. The increase of 6.7 cents was caused mostly by an annual employer contribution by one railroad to an employee stock ownership plan.

### **Labor Index Calculation**

As shown in Table A-1 on the next page, an unchanged Wage Index and a 0.6 percent increase in the Supplements Index combine to cause the Labor Index to increase 0.3 percent. The linked second quarter 2007 index is 298.2.

## Labor

### Second Quarter 2007

Table A-1 Labor Index

	2007Q1	2007Q2	Change	
			Percent	Amount
<b>Base Wage – Straight Time &amp; Pay For Time Not Worked</b>	\$29.676	\$29.684	0.0%	\$0.008
<b>Adjustments:</b>				
Lump Sum	0.091	0.096	5.5%	0.005
Back Pay	0.018	0.024	33.3%	0.006
Other	0.161	0.161	0.0%	0.000
<b>Total Wages</b>	<u>29.946</u>	<u>29.965</u>	0.1%	0.019
Health & Welfare Benefits	5.551	5.550	0.0%	-0.001
RR Retirement & Medicare	6.217	6.220	0.0%	0.003
Unemployment Insurance	0.186	0.186	0.0%	0.000
Other	0.063	0.130	106.3%	0.067
<b>Total Supplements</b>	<u>\$12.017</u>	<u>\$12.086</u>	0.6%	0.069
<b>Total Labor</b>	<b>\$41.963</b>	<b>\$42.051</b>		
<b>Wage Index<sup>1</sup></b>	256.3	256.4	0.0%	
<b>Supplements Index<sup>2</sup></b>	444.1	446.6	0.6%	
<b>Total labor Index, 2005 Weights<sup>3</sup></b>	308.1	308.9		
<b>Labor Index (linked)<sup>4</sup></b>	<b>297.4</b>	<b>298.2</b>	0.3%	

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<sup>1</sup> 1980 wage rate \$11.685

<sup>2</sup> 1980 supplements rate \$2.706

<sup>3</sup> 2005 weights: wages, supplements 72.4% 27.6%

<sup>4</sup> 2007Q2 linked Index = 2007Q1 linked x (2007Q2 / 2007Q1)

= 297.4 x 308.9 / 308.1

## Fuel

### Second Quarter 2007

The forecast for fuel is based on: (1) a survey of railroad fuel purchasing officers concerning current price and volume levels, (2) expectations of railroad purchasing officers based on their own forecast models and discussions with their major suppliers, and (3) a consensus of petroleum industry experts and general business publications.

Since peaking in August, locomotive diesel fuel prices have declined (through January 2007) to their lowest level since June 2005. Crude oil\* followed a similar pattern, with prices falling from the \$70s to the upper \$40s, resulting in OPEC members discussing production cuts. However, crude oil prices have been trending upward since January. By March 1, crude oil prices were near \$62 per barrel. In addition, heating oil\*\* prices have also been rising since January.

The railroads believe that April (second quarter) locomotive diesel fuel prices will be 4.1 percent *lower* than the January (first quarter) forecast, but 11.1 percent *above* the first quarter price actually experienced. This anomaly was caused by a first quarter forecast that did not anticipate fuel prices dropping to the extent that they did.

Forecast Fuel Index	235.9
Change from previous quarter forecast	-4.1%
Change from previous quarter actual	11.1%

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\* Diesel fuel used by locomotives is made from refined crude oil, and therefore has some price correlation.

\*\* Heating oil and locomotive diesel fuel are part of a group of closely related products, commonly labeled as distillates, that differ mostly by their sulfur content. Because of these similarities, these fuels are produced together and have similar pricing trends.

## **Materials & Supplies**

### **Second Quarter 2007**

The Materials & Supplies Index decreased 0.5 percent from the first quarter level. Regional ballast purchases plus slightly lower prices for cross-ties caused the decrease.

2007Q2 Materials & Supplies Index = 206.1

2007Q1 Materials & Supplies Index = 207.1

Difference	-1.0 basis points
	or
	-0.5 %



## Equipment Rents

### Second Quarter 2007

The Equipment Rents Index consists of two components – car hire and lease rentals. The methodology used to create these two components and the final Equipment Rents Index are explained below.

#### Car Hire

The car hire component is indexed using data from the Car Hire Accounting Rate Master (CHARM) file. Car hire rates for the forecast quarter are estimated based on data for the most recent month available. For the first quarter, December 1 of the previous year is used. For the second, third and fourth quarters; March 1, June 1, and September 1 are used, respectively. Using data retrieved from the latest CHARM file, an average rate per car is developed. Next, those average rates are grouped into car type categories to create an overall summary of car hire rates. The summary rates are then compared from quarter to quarter to determine the Car Hire Index.

#### Lease Rentals

The lease rentals portion of the Equipment Rents Index uses the Producer Price Index for Industrial Commodities less Fuel and Related Products and Power (PPI-LF). The Commission adopted this surrogate in its decision served March 13, 1987. The AAR uses six years of historical data to derive its forecast for the PPI-LF. The forecast is used not only for lease rentals, but also for the "Other" component of the All-Inclusive Index. Appendix G discusses the forecast in more detail.

#### Equipment Rent Index Calculation

The Car Hire portion of the Index increased 1.5 percent because of higher rates for privately owned (especially tank) cars. A 0.6 percent increase in the PPI-LF forecast (see Appendix G) used as a proxy for Lease Rentals combined with the 1.5 percent in the Car Hire Index caused the overall Equipment Rent Index to increase 1.1 percent.

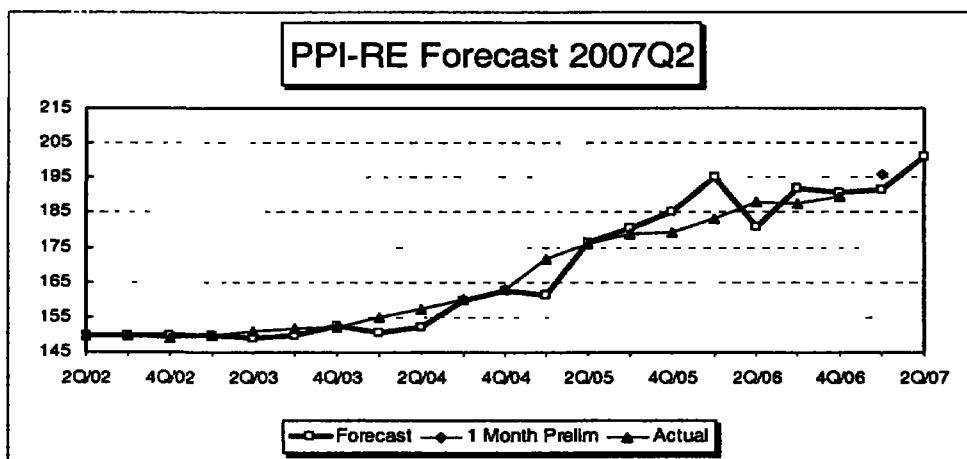
	2005 Weight	2007Q1	2007Q2	Percent Change
Car Hire	49.2%	176.3	178.9	1.5 %
Lease Rentals	50.8%	188.6	189.8	0.6
Weighted Average		182.5	184.4	1.0
Weighted Average (Linked)		188.2	190.2	1.1

## Depreciation

### Second Quarter 2007

The Producer Price Index for Railroad Equipment (PPI-RE) is used to index depreciation expense. The PPI-RE is forecast using an ARIMA process on 6 years of monthly data (a sample size of 72) with the most recent available monthly data being the first month of the quarter prior to the forecast quarter. For a first quarter forecast, the most recent month of data available would be for October of the prior year. For a second quarter forecast, January would normally be the most recent monthly data available. April and July would be the most recent months available for third and fourth quarter forecasts, respectively. The output from the forecast model is shown on page 2 of this appendix for 1982=100. The figure forecast by the model reflects monthly PPI-RE figures that jumped at annual rates over 20 percent during December and January.

Forecast of Depreciation Index (1982=100)	181.6
Forecast of Depreciation Index (1980=100)	200.9
Change from previous quarter forecast	4.9%
Change from actual first month of previous quarter	2.5%
Change from same quarter of prior year (actual)	6.8%



## Depreciation

### Second Quarter 2007

#### PPI INDUSTRIAL COMMODITIES LESS FUEL AND RELATED PRODUCTS AND POWER

Recommended model: Exponential Smoothing

Forecast Model for PPIRE

Additive Winters: Linear trend, Additive seasonality

Component	Smoothing Weight	Final Value	Seasonal Indexes			
Level	0.96996	177.21	January - March	-0.0061558	-0.081847	0.22809
Trend	0.09608	1.1008	April - June	-0.086469	-0.0014943	0.074427
Seasonal	0.99748		July - September	-0.058776	0.026454	0.010703
			October - December	-0.024718	-0.15191	0.071688

#### Within-Sample Statistics

Sample size 72	Number of parameters 3
Mean 147.3	Standard deviation 14.15
R-square 0.9924	Adjusted R-square 0.9921
Durbin-Watson 1.479	** Ljung-Box(18)=41.3 P=0.9986
Forecast error 1.254	BIC 1.342
MAPE 0.004994	RMSE 1.228
MAD 0.7734	

#### Actual Values for the Most Recent 6 Periods:

Date	Actual
2006-08	170.900
2006-09	170.400
2006-10	170.600
2006-11	170.200
2006-12	173.300
2007-01	177.200

#### Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2007-02	175.594	178.225	180.856
2007-03	175.795	179.636	183.476
2007-04	175.671	180.422	185.173
2007-05	176.094	181.608	187.121
2007-06	176.602	182.784	188.967
<b>QTR AVG</b>	<b>176.122</b>	<b>181.605</b>	<b>187.087</b>

## Interest

### Second Quarter 2007

The Interstate Commerce Commission, in its decision served February 28, 1989, revised the All-Inclusive Index methodology to include a specific interest component, which is to track changes in the average interest rate from year to year. The interest rate is essentially the embedded cost of debt, i.e., total interest expense divided by average total long term debt. The interest rate is calculated for the most recent year and used until the next year's figures are available. Typically in the fourth quarter filing, the interest rate is updated to the new level. The source for interest expense is Schedule 210, column b, from the R-1 annual report. The lines used from current R-1 annual reports are listed below. The source for average total debt is Schedule 200 from the R-1 annual report. The sums of data from columns b and c (ending and beginning balances) are combined and divided by 2 to compute an average balance. The line numbers are listed below. Beginning with fourth quarter 2006, the Interest Index is based on data for 2005.

#### Interest Expense (Schedule 210)

Line	
42	Total Fixed Charges
44	Contingent Interest
less	
22	Release of Premium on Funded Debt

#### Average Total Debt (Schedule 200)

Line	
30	Current Loans and Notes Payable
39	Equipment Obligations and Other Long Term Debt Due Within One Year
41	Funded Debt Unmatured - Non-Current
42	Equipment Obligations - Non-Current
43	Capitalized Lease Obligations - Non-Current
44	Debt in Default - Non-Current
45	Accounts Payable: Affiliated Companies - Non-Current
46	Unamortized Debt Premium - Non-Current

2005	Interest Rate	7.61%
1980	Interest Rate	7.85%
<b>2007Q2</b>	<b>Interest Index</b>	<b>96.9</b>
<b>2007Q1</b>	<b>Interest Index</b>	<b>96.9</b>
	<b>Percent Change</b>	<b>0.0%</b>

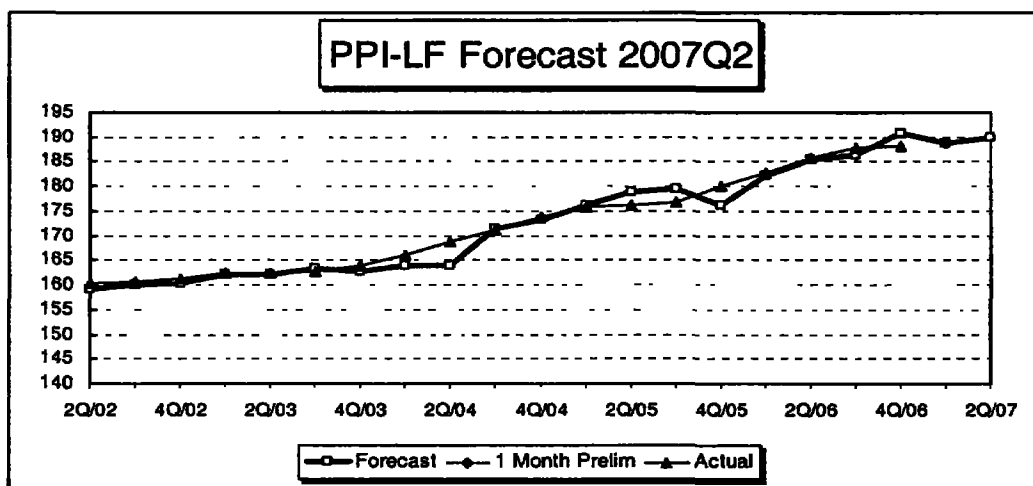
## Other Expenses

### Second Quarter 2007

The Producer Price Index for Industrial Commodities less Fuel and Related Products and Power (PPI-LF) is used to index purchased services, casualties and insurance, loss and damage, taxes (other than income and payroll), general and administrative expenses, and lease rentals. These expenses, when grouped together, are usually called "Other" expenses.

Like the PPI-RE, the PPI-LF is forecast using an ARIMA process on 6 years of monthly data (a sample size of 72) with the most recent available monthly data being the first month of the quarter prior to the forecast quarter. For a first quarter forecast, the most recent month of data available would be for October of the prior year. For a second quarter forecast, January would normally be the most recent month available. April and July would be the most recent months available for third and fourth quarter forecasts respectively. The output from the forecast model is shown on page 2 of this appendix for 1982=100. The figure forecast by the model, a small increase from the previous quarter, reflects monthly PPI-LF figures that are increasing at lower rates compared to a year ago.

Forecast of Other Expense Index (1982=100)	169.3
Forecast of Other Expense Index (1980=100)	189.8
Change from previous quarter forecast	0.6%
Change from actual first month of previous quarter	0.5%
Change from same quarter of prior year (actual)	2.2%



## Other Expenses

### Second Quarter 2007

#### PPI INDUSTRIAL COMMODITIES LESS FUEL AND RELATED PRODUCTS AND POWER

Recommended model: Exponential Smoothing

Forecast Model for PPILF

Multiplicative Winters: Linear trend, Multiplicative seasonality

Confidence limits proportional to indexes

Component	Smoothing Weight	Final Value	Seasonal Indexes			
Level	0.93949	168.37	January - March	1.00021	0.99985	0.99984
Trend	0.34421	0.23823	April - June	0.99978	1.00011	0.99990
Seasonal	0.99676		July - September	1.00005	1.00000	0.99969
			October - December	1.00117	1.00028	0.99914

#### Within-Sample Statistics

Sample size 72	Number of parameters 3
Mean 151.5	Standard deviation 8.968
R-square 0.998	Adjusted R-square 0.9979
Durbin-Watson 1.442	* Ljung-Box(18)=31 P=0.9712
Forecast error 0.4116	BIC 0.4405
MAPE 0.002086	RMSE 0.4029
MAD 0.3189	

#### Actual Values for the Most Recent 6 Periods:

Date	Actual
2006-08	167.500
2006-09	167.600
2006-10	167.700
2006-11	168.000
2006-12	168.100
2007-01	168.400

#### Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2007-02	167.716	168.579	169.442
2007-03	167.424	168.814	170.205
2007-04	167.276	169.042	170.809
2007-05	167.261	169.336	171.412
2007-06	167.195	169.539	171.884
<b>QTR AVG</b>	<b>167.244</b>	<b>169.306</b>	<b>171.368</b>

## Railroad and Union Abbreviations

### Second Quarter 2007

#### ***Railroads***

BLE	Bessemer & Lake Erie Railroad (Part of CN's Grand Trunk Corp.)
BNSF	BNSF Railway Company
CC	Chicago, Central & Pacific (Part of CN's Grand Trunk Corp. Sometimes noted as CC&P.)
CN	Canadian National Railway (Commonly known as CN, owns Grand Trunk Corporation.)
CNGT	AAR's abbreviation for Grand Trunk Corporation (Almost all of CN's U.S. operations.)
CP	Canadian Pacific Railway (Also noted as CPR. Owns the U.S. Class I railroad Soo Line.)
CSX	CSX Transportation
DMIR	Duluth, Missabe & Iron Range Company (Part of CN's Grand Trunk Corp.)
DWP	Duluth, Winnipeg & Pacific Railway (Part of CN's Grand Trunk Corp.)
GTW	Grand Trunk Western Railroad (Part of CN's Grand Trunk Corp.)
IC	Illinois Central Railroad (Part of CN's Grand Trunk Corp.)
KCS	Kansas City Southern Railway
NS	Norfolk Southern Combined Railroad Subsidiaries (a.k.a. Norfolk Southern Railway or NS Rail)
SOO	Soo Line Railroad (Canadian Pacific Railway's western U.S. operations.)
SSAM	Sault Saint Marie Bridge Company (Part of CN's Grand Trunk Corp.)
UP	Union Pacific Railroad
WC	Wisconsin Central and subsidiaries (Part of CN's Grand Trunk Corp.)

#### ***Major Unions Involved with Railroads***

ATDA	American Train Dispatchers Association
BLET	Brotherhood of Locomotive Engineers and Trainmen Division of the International Brotherhood of Teamsters
BMWED	Brotherhood of Maintenance of Way Employees Division of the International Brotherhood of Teamsters
BRS	Brotherhood of Railroad Signalmen
IAM	International Association of Machinists and Aerospace Workers
IBBM	International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers & Helpers
IBEW	International Brotherhood of Electrical Workers
NCFO	National Conference of Firemen and Oilers
SMW	Sheet Metal Workers' International Association
TCU	Transportation Communication International Union
TCU-Carmen	Brotherhood of Railway Carmen Division of the Transportation Communications International Union
UTU	United Transportation Union
UTU-Yard	United Transportation Union Yardmaster Department (also noted as UTU-YMD)

#### ***Predecessor Unions (Some AAR databases use these old abbreviations.)***

BLE	Brotherhood of Locomotive Engineers (predecessor to BLET)
BMWE	Brotherhood of Maintenance of Way Employees (predecessor to BMWED)
BRC	Brotherhood of Railway Carmen (predecessor to TCU-Carmen)
IBFO	International Brotherhood of Firemen and Oilers (predecessor to NCFO)